Supplement to 'Social Action'

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First Steps in C. S. A.

11. SOCIAL INSTITUTIONS

III. CAPITALISM

Section I.—Historical Outline

CAPITALISM is an economic organisation in which, (*i*) the majority of the working population of a country are wage-earners; (*ii*) the ownership and control of the entire, or the greater part of the economic regime is in the hands of a relatively small minority, and (*iii*) the chief motive of these owners is maximum profits, can be best understood by means of a rapid survey of the history of Capitalism. This type of economic regime first flourished in England and in Western Europe, and its development is marked by three stages:—

The *First Stage*, which is sometimes known as the *Age of Merchant Capitalism*, flourished in England about the 18th century. During this period the most prominent capitalistic concerns were the large Trading Companies and the clothing trade. The former brought in fat profits from the foreign trade with India and America, while the latter employed large capital in setting to work craftsmen scattered all over the country. Other industries also, like coal mines and iron works were organised along capitalistic lines, and all owners of capital were just as keen on making maximum profits as their successors are today.

The *Second Stage*, usually known as the *Age of Industrial Capitalism*, is, however, ordinarily accepted as the true period of Capitalism and it was brought about by the Industrial Revolution. The term, "Industrial Revolution" merely indicates changes which were introduced in methods of production and manufacture. The ground for such changes was prepared by a combination of factors: the demand for increased production caused by the opening up of new markets in countries where the large Trading Companies did business; the employment of new "capital" which these Companies collected and lastly the great mechanical inventions of the

18th and early 19th centuries, which, (*i*) made it cheaper to produce goods on a large scale than on a small one; (*ii*) made it cheaper to have workers gathered in a factory where the great machines were set up, rather than to have them working in their own homes; (*iii*) led to the collection of "capital" in the hands of a single person or a small group of partners.

We should carefully notice the change in the form or type of private property this stage of Capitalism introduced. Before this period, private property, in the main consisted of the land of the peasant farmer and the tools of the small craftsman, but with the coming of Industrial Capitalism, and already to some extent during the period of Merchant Capitalism, the form or type of private property underwent a change. Private property now came to mean "capital" more generally in the form of money and investment shares, and since this type of property on capital was being concentrated more and more in the hands of a few, the whole institution of private property was called into question and even condemned by the industrial working class, who enjoyed practically no share in this new type of private property.

The *Third Stage* is the final phase of Capitalism, and is generally known as *Financial Capitalism.* With the coming of this stage the real control of business and industry passed into the hands of financiers, who lend money to middlemen for industrial purposes. This is called "capital monopoly" or "financial capitalism". In *Quadragesimo Anno*, Section 106, Pius XI refers to this phase of Capitalism, when he speaks of "those who, because they hold and control money, also govern credit and determine its allotment, for that reason supplying, so to speak, the life-blood to the entire economic body and grasping in their hands, as it were, the very soul of production, so that no one dare breathe against their will." Our Holy Father here gives us a very graphic picture of Financial Capitalism, because by a series of financial combines and inter-locking of banks, the few who control these financial institutions also control the industrial and commercial welfare of whole countries for both commerce and industry need money in order to carry on their business. In fact, just as the health of the human body needs an adequate supply of blood in every part of the human body, so also the economic health of a country needs an adequate supply of money in every industrial and commercial concern to acquire capital equipment (*i.e.*, machinery, buildings, etc.), to pay for raw material and the hire of labour. In this way, as Our Holy Father says,

those who control money and credit exercise a powerful stranglehold on the economic life of the country.

Section II.—The Main Principles of Capitalism

Like all man-made institutions, Capitalism has its own particular "spirit" and principles, an understanding of which is essential to a true knowledge of Capitalism. In other words, just as each individual acts and behaves according to what he believes—or, according to his philosophy of life, as some say—so also Capitalism is organised, or managed according to certain definite principles which, however, are not always openly expressed or stated. The chief of these principles are:—

(a) *The Law of Self-Interest.* This law is central to the doctrine or philosophy from which Capitalism flows. That doctrine which flourished chiefly in 18th century Europe is known as Liberalism, and in economic matters it taught that the complete unfettered self-seeking of each individual finally leads to the good and welfare of all men because the really competent only can make a success of business. This is why *Capitalism* is known as the *Economics of Liberalism.* Practical experience of Capitalism, however, has proved that complete unfettered individual self-seeking in economic matters tends to create great inequalities of wealth within the country.

(b) *The Law of Free Competition.* This law flows from the Liberal teaching that each man is the sole and absolute master of himself. Therefore in all questions which concern the individual, the individual himself is the sole and best judge of his own interests. Applied to economic matters this law advocates the complete freedom of each individual—especially freedom from Government intervention—in producing, buying and selling so that from such competition among rival producers the country will be supplied with the best goods, since each producer will do his best to improve upon the products of his rival, and capture the market.

(c) *The Law of Supply and Demand.* This law is really a necessary corollary to the Law of Free Competition, because it is only when rival business men are free to compete with each other, that they will naturally move their resources or supply (of property, money, investments or even labour) to wherever they find a demand and at the highest remuneration—*i.e.*, a price or wage.

This Law of Supply and Demand is often spoken of as an "economic law" and the social worker must have a clear understanding of the nature of economic laws. Now, in every country

we have what are called *Civil Laws*, that is, certain rules and regulations which a citizen must follow and observe as a member of the State in which he lives. Then, we have *Scientific Laws*, which are really statements about cases and effects in nature. Again, all men are ruled by the *Moral Law*, which is *imperative* and, in general, *orders* us to do good and avoid evil. Scientific laws on the other hand are not imperative, but merely *indicative*, telling us what result we must expect when certain conditions obtain. Thus we know, for instance, that water freezes at a certain temperature, but the scientific law does not command us to freeze water!

Now economic laws resemble scientific laws in that they are merely indicative not imperative. They merely indicate "in general how people tend to act" under certain circumstances in economic matters. Further, economic laws are ultimately founded on the *motives from which people* act, and experience tells us that these motives may and do change. Because economic laws merely state how people tend to act in economic matters, such laws may clash with the moral law, because people may and do act from wrong motives. When this happens, the economic law must be brought into harmony with the moral law, and the moral law must not give way.

READING—

Quadragesimo Anno, paras: 100-104; 112.

Economic and Political Life of Man. pp. 22-25; 57-59.

Any book of Economic History, on the Industrial Revolution.

EXERCISES—

1. What changes did private property undergo with the rise of Capitalism? Illustrate your answer.

2. What do you understand by an "Economic Law?"

3. State clearly the difference between the Moral Law and Economic Law.

C. C. Clump.

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